

EXPLANATION OF AMHERST'S POWER PURCHASE ADJUSTMENT

The City of Amherst owns and operates an electric distribution system that provides electric services to the homes and businesses located in and around the City. The City's electric system receives power and energy from a number of different power supply sources through a pooling arrangement with other municipalities located in northern Ohio, which is managed by the City's power supply agent American Municipal Power (AMP). The City's power supply portfolio includes power generated at the hydroelectric generating plant located at Niagara Falls in New York, a coal-fired power plant located in Illinois, a natural gas-fired power plant located in Fremont, Ohio, several landfill gas-fired plants located throughout Ohio and a wind farm located in western Ohio, as well as power purchased in the wholesale energy market. In addition, over the next few years the City will begin receiving power from several hydroelectric power plants located on the Ohio River.

Due to the nature of the City's power supply arrangements, the City's cost of power fluctuates up and down from month to month. In order to accommodate for these fluctuations in power supply costs, the City's electric rates include a provision that allows the rates to automatically adjust for increases, or decreases in the City's power supply costs. This provision is referred to as the power purchase adjustment (PPA), which is reflected on the customer's bill. The PPA only recovers increases in power supply related costs, and does not provide additional revenues for other operating costs.

The PPA is determined each month by subtracting the base power supply costs that are being recovered through the City's base electric rates, which is referred to as the Base Power Supply Cost (BPSC), from the City's running 3 month average power supply cost, and then multiplying the difference by 110%. The 110% adjustment is to compensate for the losses in the system. The City only sells about 90% of the energy it receives. The other 10% reflects unbilled losses in the system, which includes losses in transformers and conductors and unbilled services, such as street lights, municipal facilities, etc.

Attached is a copy of Rider "A", which is the Power Supply Cost Adjustment applicable to City's Electric Rate Schedules.

ELECTRIC UTILITY DEPARTMENT OF
CITY OF AMHERST, OHIO

RIDER "A"
POWER SUPPLY COST ADJUSTMENT
APPLICABLE TO CITY'S ELECTRIC RATE SCHEDULES

APPLICABILITY: The Power Supply Cost Adjustment set forth herein shall apply to the City's Electric Rate Schedules that are subject to this Rider "A". The applicable adjustment shall be applied to the Total kWh Billed to Consumer for the meter reading period that City determines as most nearly corresponding to the meter reading period(s) set forth in City's purchased power billings from its supplier(s).

BASE POWER SUPPLY COSTS: The rates and charges set forth in City's Rate Schedules are based on the cost of City's power requirements as furnished by American Municipal Power-Ohio (AMP-Ohio). The Base Power Supply Cost included in City's Rate Schedules is \$0.040000 per kWh.

MONTHLY DETERMINATION OF POWER SUPPLY COST ADJUSTMENT: Each month the City's Power Supply Cost adjustment shall be determined as follows:

- (a) The City's Running Three Month Average Power Supply Cost per kWh shall be determined to 6 decimal places by dividing (1) the sum of the previous two month's and current month's total purchased power billings from all suppliers, including costs associated with ownership and operation of generating facilities owned in whole, or in part, by the City, wheeling charges and AMP-Ohio Service Fees, by (2) the total energy delivered to City in the previous two month's and the current month.
- (b) The Base Power Supply Cost of \$0.040000 per kWh shall then be subtracted from the Running Three Month Average Power Supply Cost determined in (a) above.
- (c) The Power Supply Cost Adjustment per kWh shall be determined by multiplying the differential derived in (b) by 1.10 to compensate for City's Distribution System Losses. The result should then be rounded out to the nearest 0.10 mill (\$0.0001) per kWh.

The above adjustment shall be applicable to the Security Light Charges, as set forth in Schedule "SL".

Authorized by the Service Director on November 25, 2008.

EFFECTIVE: For all bills rendered after February 1, 200~~8~~⁹.